

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014



A Professional Accounting Corporation

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Daughters of Charity Services of New Orleans (a nonprofit organization) (DCSNO) and its subsidiaries, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to consolidated financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Daughters of Charity Services of New Orleans and its subsidiaries as of June 30, 2015 and 2014, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information on pages 23 through 27 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 on our consideration of DCSNO's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Daughters of Charity Services of New Orleans' internal control over financial reporting and compliance.



Metairie, Louisiana
September 30, 2015

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

<u>ASSETS</u>		2015	2014
<u>CURRENT ASSETS</u>			
Cash	\$	974,056	\$ 2,504,941
Restricted cash		311,823	1,011,059
Investments		603,464	718,196
Patient receivables, net		236,267	203,612
Grants receivable		234,644	233,662
Due from affiliate		3,467,705	3,490,312
Prepaid expenses, inventory and other assets		48,958	79,491
Total current assets		<u>5,876,917</u>	<u>8,241,273</u>
<u>NON-CURRENT ASSETS</u>			
Due from affiliate		2,772,953	-
New market tax credit receivables		18,160,512	17,720,700
New market tax credit financing fees, net of amortization		447,559	607,035
Property, equipment, and improvements, net		<u>22,372,864</u>	<u>24,053,218</u>
<u>TOTAL ASSETS</u>	\$	<u>49,630,805</u>	<u>\$ 50,622,226</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable and accrued expenses	\$	727,254	\$ 760,506
Accrued pension, salaries and vacation pay		1,208,204	898,350
Self insurance liability		135,719	135,719
Other current liabilities		-	279,099
Interest payable, current portion		16,026	16,920
Note payable, current portion		-	48,055
Deferred revenue, current portion		78,024	78,024
New market tax credit fees payable		18,756	18,757
Total current liabilities		<u>2,183,983</u>	<u>2,235,430</u>
<u>NON-CURRENT LIABILITIES</u>			
Deferred revenue, long-term portion		663,204	741,228
New market tax credit loans payable		<u>20,500,000</u>	<u>20,500,000</u>
Total non-current liabilities		<u>21,163,204</u>	<u>21,241,228</u>
<u>TOTAL LIABILITIES</u>		<u>23,347,187</u>	<u>23,476,658</u>
<u>NET ASSETS</u>			
Unrestricted		26,126,059	26,807,566
Temporarily restricted		<u>157,559</u>	<u>338,002</u>
<u>TOTAL NET ASSETS</u>		<u>26,283,618</u>	<u>27,145,568</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$	<u>49,630,805</u>	<u>\$ 50,622,226</u>

The accompanying notes are an integral part of these consolidated financial statements.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</u>		
Clinical service fees and reimbursements net of charity and contractual discounts of \$858,156 and \$318,855, respectively	\$ 75,584	\$ 454,750
Provision for (doubtful accounts) recoveries	174,199	(76,175)
Net clinical service fees and reimbursements	<u>249,783</u>	<u>378,575</u>
Grants:		
Daughters of Charity Foundation	2,220,072	2,198,090
Other	1,183,374	1,115,428
Special event income, net of expenses of \$105,729 and \$81,449, respectively	129,569	152,314
Lease income from affiliate	15,392,916	11,995,416
Other income from affiliate	948,492	826,064
Net assets released from restrictions	<u>554,434</u>	<u>655,470</u>
<u>TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</u>	<u>20,678,640</u>	<u>17,321,357</u>
<u>EXPENSES</u>		
Program services	16,900,480	13,553,833
Management and general	<u>4,654,001</u>	<u>4,027,464</u>
<u>TOTAL EXPENSES</u>	<u>21,554,481</u>	<u>17,581,297</u>
<u>OPERATING INCOME (LOSS)</u>	(875,841)	(259,940)
<u>OTHER INCOME (EXPENSE)</u>		
Contribution to affiliate	(381,444)	(872,373)
Investment income, net	526,191	699,909
Pension related changes other than net periodic pension cost	<u>49,586</u>	<u>39,241</u>
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	<u>(681,508)</u>	<u>(393,163)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Operating grants	295,968	430,208
Construction grants:		
Other	78,024	78,024
Net assets released from restrictions	<u>(554,434)</u>	<u>(655,470)</u>
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>	<u>(180,442)</u>	<u>(147,238)</u>
<u>CHANGE IN NET ASSETS</u>	(861,950)	(540,401)
<u>NET ASSETS</u>		
Beginning of year	<u>27,145,568</u>	<u>27,685,969</u>
End of year	<u>\$ 26,283,618</u>	<u>\$ 27,145,568</u>

The accompanying notes are an integral part of these consolidated financial statements.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014		
	Program Services	Supporting Services- Management and General	Totals	Program Services	Supporting Services- Management and General	Totals
Salaries and wages	\$ 8,621,443	\$ 2,280,617	\$ 10,902,060	\$ 7,251,002	\$ 1,976,975	\$ 9,227,977
Employee benefits	1,693,498	861,675	2,555,173	1,411,941	641,941	2,053,882
Supplies	1,338,756	65,693	1,404,449	869,691	92,155	961,846
Purchased services	1,082,964	207,416	1,290,380	1,130,849	184,451	1,315,300
Bank charges	1,049	26,114	27,163	509	18,731	19,240
Depreciation	1,778,014	82,602	1,860,616	1,229,269	76,197	1,305,466
Insurance	210,429	51,678	262,107	194,226	-	194,226
Interest and fees	109,493	-	109,493	105,277	-	105,277
Janitorial services	265,356	552	265,908	219,372	6,841	226,213
Professional fees	794,357	349,211	1,143,568	424,867	376,100	800,967
Miscellaneous	10	1,872	1,882	13,073	5,491	18,564
Office expenses	80,417	51,577	131,994	62,411	61,575	123,986
Consumer awareness	11,358	238,700	250,058	27,385	310,375	337,760
Rent	128,855	142,369	271,224	-	91,262	91,262
Repairs and maintenance	50,176	509	50,685	33,453	289	33,742
Security	234,324	-	234,324	193,946	66	194,012
Temporary employees / internships	17,465	176,295	193,760	-	44,358	44,358
Travel, meetings, and conferences	35,842	60,517	96,359	33,415	82,908	116,323
Utilities	442,700	53,999	496,699	344,136	53,115	397,251
Vehicle maintenance	3,974	2,605	6,579	9,011	4,634	13,645
TOTAL EXPENSES	\$ 16,900,480	\$ 4,654,001	\$ 21,554,481	\$ 13,553,833	\$ 4,027,464	\$ 17,581,297

The accompanying notes are an integral part of these consolidated financial statements.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (861,950)	\$ (540,401)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,860,616	1,305,466
Amortization of financing fees	159,475	169,686
Bad debt expense (recoveries)	(174,199)	76,175
Changes in assets and liabilities:		
(Increase) decrease in operating assets:		
Patient receivables	141,544	(270,836)
Grants receivable	(982)	1,070,928
Interest receivable	(439,812)	(439,811)
Due from affiliate	(2,750,346)	(739,162)
Prepaid expenses, inventory and other assets	30,533	2,621
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(33,252)	(368,438)
Accrued salaries and vacation pay	309,854	56,099
Self insurance liability	-	13,418
Other current liabilities	(279,100)	20
Interest payable, current portion	(894)	6,833
Deferred revenue	(78,024)	819,252
Net cash provided by (used in) operating activities	<u>(2,116,537)</u>	<u>1,161,850</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sales of investments, net of purchases	114,733	1,729,505
Property and equipment purchases	<u>(180,262)</u>	<u>(7,203,007)</u>
Net cash used in investing activities	<u>(65,529)</u>	<u>(5,473,502)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on note payable	<u>(48,055)</u>	<u>(48,055)</u>
Net cash used in financing activities	<u>(48,055)</u>	<u>(48,055)</u>
<u>NET DECREASE IN CASH</u>	<u>(2,230,121)</u>	<u>(4,359,707)</u>
<u>CASH</u>		
Beginning of year	<u>3,516,000</u>	<u>7,875,707</u>
End of year	<u>\$ 1,285,879</u>	<u>\$ 3,516,000</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</u>		
Cash	\$ 974,056	\$ 2,504,941
Restricted cash	311,823	1,011,059
	<u>\$ 1,285,879</u>	<u>\$ 3,516,000</u>
<u>SUPPLEMENTAL DISCLOSURE</u>		
Cash paid for interest	<u>\$ 10,560</u>	<u>\$ 10,560</u>

The accompanying notes are an integral part of these consolidated financial statements.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. **Organization and Mission**

Organizational Structure

Daughters of Charity Services New Orleans is a member of Ascension Health. In December 2011, Ascension Health Alliance, doing business as Ascension, became the sole corporate member and parent organization of Ascension Health, a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries. In addition to serving as the sole corporate member of Ascension Health, Ascension serves as the member or shareholder of various other subsidiaries. Ascension, its subsidiaries, and the Health Ministries are referred to collectively from time to time hereafter as the System.

Ascension is sponsored by Ascension Sponsor, a Public Juridic Person. The Participating Entities of Ascension Sponsor are the Daughters of Charity of St. Vincent de Paul, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, the Congregation of Alexian Brothers of the Immaculate Conception Province -- American Province and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi -- US/Caribbean Province.

Daughters of Charity Services New Orleans located in New Orleans, Louisiana, is a nonprofit Health Ministry. The Health Ministry provides outpatient health care services for the residents of New Orleans and surrounding areas. The Health Ministry is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.

Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. Organization and Mission (continued)

Mission (continued)

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and other community benefit programs. The cost of providing care to persons living in poverty and other community benefit programs is estimated using internal cost data and is estimated by reducing charges forgone by a factor derived from the ratio of total operating expenses to billed charges for patient care.

The amount of traditional charity care provided, determined on the basis of cost, was approximately \$188,219 and \$157,497 for the years ended June 30, 2015 and 2014, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying supplementary information. (This paragraph is unaudited.)

2. Organization and Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

Daughters of Charity Services of New Orleans (DCSNO) and its controlled subsidiaries Daughters of Charity Services of New Orleans Foundation (DCSNOF), Daughters of Charity Services of New Orleans East (DCSNOE), and Daughters of Charity Foundation of New Orleans, L.L.C. (DCFNO) (collectively, the Organization). DCSNO, DCSNOF, and DCSNOE are each 501(c) (3) exempt organizations, with status pending for the two subsidiaries. DCFNO is a wholly owned subsidiary which is disregarded for income tax purposes. The organization provides health care services, counseling, and educational assistance to men, women, and children in the New Orleans area and reports to the national organization, Ascension Health.

Organization and Income Taxes

DCSNO is a nonprofit corporation organized under the laws of the State of Louisiana in 1996. It is exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R.S.47:121(5).

DCSNOF was incorporated in the state of Louisiana on November 23, 2009. The sole mission of the foundation is to provide financial resources for the execution of the mission of DCSNO.

DCSNOE was incorporated in the state of Louisiana on January 24, 2012. The primary purpose of the corporation is to further the tradition of healing and service to the sick and poor established by St. Vincent dePaul, St. Louise de Marillac, and St. Elizabeth Ann Seton and exemplified by the philosophy and mission of DCSNO.

DCFNO was incorporated in the state of Louisiana on September 18, 2012. The sole mission of the foundation is to provide financial resources for the execution of the mission of DCSNO. As of June 30, 2015, DCFNO has not incurred any activity.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. **Organization and Summary of Significant Accounting Policies (continued)**

The Organization applies a “more-likely-than-not” recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, the Organization has reviewed its tax positions and determined there were no outstanding, or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities. Therefore, the implementation of this standard has not had a material effect on the Organization.

Basis of Accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned and expenses are recorded when incurred. Contributions are recognized when received or unconditionally promised. In-kind donations are recognized at their fair market value when received.

Principles of Consolidation

The consolidated financial statements include the financial statements of DCSNO and its controlled subsidiaries, DCSNOF, DCSNOE, and DCFNO. All significant intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

The accounting for not-for-profit organizations requires the reporting of information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets, based on donor stipulations and restrictions placed on contributions, if any. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Support, revenue, and expenses for the general operation of the Organization.

Temporarily Restricted Net Assets – Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Permanently Restricted Net Assets – Contributions specifically authorized by the grantor or donor to be held in perpetuity for a specific purpose. The Organization had no net assets classified as permanently restricted as of June 30, 2015 or 2014.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization considers all short-term securities purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. **Organization and Summary of Significant Accounting Policies (continued)**

Use of Estimates (continued)

Significant items subject to such estimates and assumptions include the useful lives and valuation of fixed assets and the valuation of receivables and investments. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Grants, Contributions, and Revenue Recognition

Grants and contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support. Grant revenue restricted to capital improvements is deferred and amortized over the life of the improvement.

Clinic Service Fees and Revenue Recognition

Clinical service fees represent the estimated net realizable amounts from patients, third party payors, and others for services rendered. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from payers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The estimated reimbursement amounts are made on a payer-specific basis and are recorded based on the best information available regarding management's interpretation of the applicable laws, regulations and contract terms. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Due to the complexities involved in the classification and documentation of health care services authorized and provided, the estimation of revenues earned and the related reimbursement are often subject to interpretations that could result in payments that are different from the Organization's estimates.

Revenues from pharmacy sales are recorded at the time products are sold.

The Organization does not pursue collection of amounts related to patients who meet guidelines to qualify as charity care. The federal poverty level is established by the federal government and is based on income and family size. The Organization provides discounts from gross charges to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. After the discounts are applied, the Organization is still unable to collect a significant portion of uninsured patients' accounts, and records significant provisions for doubtful accounts (based upon historical collection experience) related to uninsured patients in the period the services are provided.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. Organization and Summary of Significant Accounting Policies (continued)

Clinic Service Fees and Revenue Recognition (continued)

The Organization receives payments for patient services from the federal government under the Medicare program, state governments under their respective Medicaid or similar programs, managed care plans, private insurers, and directly from patients. Revenues from third-party payers and the uninsured for the years ended June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Medicare	\$ 44,466	\$ 33,089
Medicaid	229,131	206,012
Managed care and other insurers	303,627	207,186
Self-pay	168,297	164,349
Gross patient revenues	745,521	610,636
Contractual adjustments	(669,937)	(155,886)
Revenues before provision for doubtful accounts	\$ 75,584	\$ 454,750

Allowance for Uncollectible Accounts

Patients are expected to pay for services rendered at the time of the clinic visits. If a patient is unable to pay at the time of service, a receivable is recorded. Patients are sent a billing statement within 28 days following the date of visit and every 28 days thereafter. Receivables are recorded at estimated net realizable value.

The collection of outstanding receivables from Medicare, managed care payers, other third-party payers and patients is the primary source of cash and is critical to operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding.

The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to amounts due directly from patients. An estimated allowance for doubtful accounts is recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed or when the accounts reach 365 days old.

The Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. Organization and Summary of Significant Accounting Policies (continued)

Allowance for Uncollectible Accounts (continued)

The Organization has adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"). ASU 2011-07 requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues. The amount of the provision for doubtful accounts is based upon management's assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state, and private employer health care coverage and other collection indicators.

The allowance for uncollectible accounts was \$270,545 and \$1,339,636, respectively, at June 30, 2015 and 2014. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2015 or 2014. The Organization maintains an allowance for doubtful accounts from third-party payors, which pertain to uncollectible claims from prior periods.

New Market Tax Credit Financing Fees

Financing fees represent the costs associated with the New Market Tax Credit financings and are amortized over the term of the loans payable. Accumulated amortization was \$668,768 and \$509,293 respectively, at June 30, 2015 and 2014.

Third Party Contractual Adjustments

The Organization records net realizable revenue from third party payors (Medicaid/Medicare) at the time that clinical services are provided. Contractual adjustments are made based upon expected claim reimbursement amounts.

Other Assets

Other assets consist of an investment in another entity, in which DCSNO has a non-controlling interest, and is recorded under the equity method. As of June 30, 2015 and 2014, investment income consisted of \$0 and \$17,038, respectively. This amount is not included in the investment section following.

Investments

The Organization maintains an investment in the Health System Depository (HSD) investment pool managed by Ascension Health for its member institutions. Net earnings of the HSD are allocated to investing participants on a pro rata basis.

The HSD investments consist primarily of U.S. Government obligations, corporate obligations, marketable equity securities, and loans receivable from member institutions. Investments are carried at market value. The Organization's investment in the HSD investment pool was \$603,464 and \$718,916, net of reconciling items, respectively, at June 30, 2015 and 2014.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. **Organization and Summary of Significant Accounting Policies (continued)**

Investments (continued)

As of June 30, 2015 and 2014, investment income (excluding approximately \$441,688 and \$442,657 related to New Market Tax Credits in 2015 and 2014, respectively) consisted of earnings from the HSD pool as well as interest earned on bank accounts totaling:

	<u>2015</u>		<u>2014</u>
Interest and dividends	\$ 27,047	\$	70,276
Unrealized gain (loss)	(43,184)		97,856
Total investment income (loss)	\$ (16,137)	\$	168,132

Dividend, interest and other investment income is recorded as increases in unrestricted net assets unless the use is restricted by the donor. Donated investments are recorded at fair market value at the date of receipt. Investments consisting of real property contributed to the Organization are recorded at fair value at the date of the donation.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net interest income of investments. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost that is deemed to be other than temporary results in a charge to change in net assets and the establishment of a new cost basis for the investment.

Inventory

Inventory is stated at the lower of cost, determined by the first in-first out method (FIFO), or market.

Property, Equipment, and Improvements

Property, equipment, and leasehold improvements are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Donated property is recorded at its fair market value at the date of donation.

Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using appraisals. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. There were no impairments of long-lived assets recorded by management during the years ended June 30, 2015 and 2014.

Maintenance and repairs are expensed as incurred and major improvements are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of activities.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. Organization and Summary of Significant Accounting Policies (continued)

Allocated Expenses

The costs of providing the various programs and other activities are summarized in the Consolidated Statements of Functional Expenses. Certain expenses have been allocated between the program and supporting services based on management's estimate of the costs involved.

3. Restricted Net Assets

Temporarily restricted net assets are restricted by grantors for specific programs, purposes, or for use in subsequent periods. These restrictions are considered to expire when payments are made. Temporary restricted net assets are shown in the Consolidated Statements of Financial Position as restricted cash.

Additionally, restricted cash in the Consolidated Statements of Financial Position includes \$154,264 and \$673,057 at June 30, 2015 and 2014, respectively, of cash related to the New Market Tax Credits which is payable in future periods for management fees and/or construction and is not included in temporarily restricted net assets.

Temporary restricted net assets as of June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Other grants received, restricted cash	\$ 98,610	\$ 159,625
SC Ministry Grant, restricted cash	500	75,000
Gert Town Biggest Loser Program, restricted cash	-	40,000
Methodist Health, restricted cash	10,000	63,377
Gulf State Eye Foundation, restricted cash	28,000	-
March of Dimes, restricted cash	11,184	-
American Cancer Society, restricted cash	9,265	-
Grants received in advance for future operations	<u>\$ 157,559</u>	<u>\$ 338,002</u>

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

4. **Property, Equipment and Improvements**

At June 30 the cost of property, equipment and improvements was as follows:

	<u>2015</u>	<u>2014</u>	<u>Useful lives</u>
Land	\$ 1,622,516	\$ 1,622,516	
Building	21,094,007	21,083,230	5 – 20 years
Leasehold improvements	319,677	312,179	3 – 8 years
Furniture and equipment	4,944,878	4,788,402	5 – 20 years
Vehicles	367,829	367,829	5 years
Construction in progress - DCSNOE	<u>30,737</u>	<u>25,230</u>	
	28,379,644	28,199,386	
Less accumulated depreciation	<u>(6,006,780)</u>	<u>(4,146,168)</u>	
Total	<u>\$ 22,372,864</u>	<u>\$ 24,053,218</u>	

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

5. Notes Payable and New Market Tax Credit Receivables

Notes payable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Note payable to a financial institution, interest fixed at 1.0% with quarterly interest payments until December 1, 2016, at which time all principal and interest shall be due. Secured by the new market tax credit note receivable.	\$ 9,000,000	\$ 9,000,000
Note payable to a financial institution, interest fixed at 1.0% with quarterly interest payments until December 1, 2016, at which time all principal and interest shall be due. Secured by the new market tax credit note receivable.	4,500,000	4,500,000
Promissory note payable with imputed interest at 7.0% per annum and payable in five annual installments of \$58,600, which began on April 17, 2011 and continuing through April 17, 2015. Collateralized by the St. Cecilia building.	-	48,055
Note payable to a financial institution, interest fixed at 1.15% with quarterly interest payments until January 5, 2020, at which time principal and interest shall be payable quarterly through January 5, 2043. Secured by the new market tax credit note receivable.	5,284,800	5,284,800
Note payable to a financial institution, interest fixed at 1.15% with quarterly interest payments until January 5, 2020, at which time principal and interest shall be payable quarterly through January 5, 2043. Secured by the new market tax credit note receivable.	1,715,200	1,715,200
	20,500,000	20,548,055
Less current portion	-	48,055
	<u>\$ 20,500,000</u>	<u>\$ 20,500,000</u>

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

5. Notes Payable and New Market Tax Credit Receivables (continued)

Maturities of notes payable for the next five years and thereafter are:

<u>Year</u>	<u>Amount</u>
2016	\$ -
2017	13,500,000
2018	-
2019	-
2020	200,303
2021 – 2025	1,380,365
2026 – 2030	1,461,941
2031 – 2035	1,548,337
2036 – 2040	1,639,843
2041 – 2043	769,211
	<u>\$ 20,500,000</u>

The DCSNO and the DSCNO Foundation are parties to two new market tax credits (NMTC).

The first NMTC financing is in connection with the acquisition and redevelopment of the land and buildings located at 3201 South Carrollton Avenue, New Orleans, Louisiana and 4201 North Rampart Street, New Orleans, Louisiana for use as a nonprofit medical center.

The Organization designated its Carrollton Medical Center and Bywater Medical Center as a separate business for NMTC purposes, which qualify as a Qualified Active Low Income Community Business (QALICB).

As part of the NMTC financing, DCSNO Foundation has a note receivable from the Iberia Bank Investment Fund of \$10,566,700 at June 30, 2015 and 2014. Interest accrues at a fixed rate of 4.8508%, and the note and interest is payable on December 1, 2016.

Accrued interest on the note receivable was \$2,309,012 and \$1,869,200 at June 30, 2015 and 2014, respectively, and is included in the new market tax credit receivables balance on the Consolidated Statements of Financial Position.

The second NMTC financing is in connection with the acquisition and development of the land and buildings located in New Orleans East, Louisiana for use as a nonprofit medical center.

The Organization designated its New Orleans East Medical Center as a separate business for NMTC purposes, which qualify as a Qualified Active Low Income Community Business (QALICB).

As part of the NMTC financing, DCSNO Foundation has a note receivable from the FNBC Investment Fund of \$5,284,800 at June 30, 2015 and 2014. Interest accrues at a fixed rate of 1.42%, with interest payable quarterly in arrears commencing April 10, 2013 through January 10, 2020, and note and interest payments occurring quarterly in arrears commencing April 10, 2020 through January 10, 2038. Interest received on the note receivable was \$76,920 and \$75,044 as of June 30, 2015 and 2014, respectively, and is included in investment income on the Consolidated Statements of Activities and in restricted cash on the Consolidated Statements of Financial Position.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

6. Transactions with Affiliates

The Organization incurred legal fees totaling \$40,536 and \$34,086 during the years ended June 30, 2015 and 2014, respectively, to a law firm of which a member of the Organization's Board of Directors is a partner.

The Organization participates in the Ascension Health Retirement Plan. During the years ended June 30, 2015 and 2014, respectively, the Organization was allocated part of the Plan's net periodic pension costs as described in Note 8 – Employee Benefit Plans.

Various insurance coverages are maintained by Ascension Health for the benefit of its member organizations. The Organization participated in several group insurance policies including professional/general liability, workers compensation, property, automobile, directors and officers, etc.

The Organization receives yearly allocations from the Daughters of Charity Foundation (DCF). DCF also provides additional funding for certain projects in which the Organization participates. For the years ended June 30, 2015 and 2014, the Organization had no amounts due from DCF included in grants receivable in the Consolidated Statements of Financial Position.

The Organization entered into an affiliation agreement (agreement) with Marillac Community Health Centers (MCHC) effective March 1, 2012. Under the terms, the Organization provides leased employees, building space, equipment, supplies, and other services to MCHC in order for MCHC to provide primary care and preventative services and facilitate access to comprehensive health and social services for medically-underserved persons in the greater New Orleans area. The agreement shall continue indefinitely unless it is amended or terminated. Termination can occur with or without cause by either party.

As consideration for the Organization's provision of these goods and services, the Organization bills MCHC on a monthly basis for the fees incurred. Leased employees are charged at a ratable amount of their wages for the period based on the allocation of their time with an additional allocation for benefits. Paid time off for leased employees is charged as an expense to MCHC with the ultimate liability recorded on the Organization's books. Building space is charged at \$14 per square foot for space assigned to MCHC as stipulated in the agreement. Equipment is charged at the monthly rate of depreciation for items with a remaining net book value plus 10%. Purchased services for billing are charged at 8% of net revenue collections remitted to the Organization. During 2015 and 2014, pharmacy administrative services were charged at a rate of \$12 per prescription. All other services are based on internal allocation assessments.

During the years ended June 30, 2015 and 2014, total billings from the agreement to MCHC were \$15,392,916 and \$11,995,416, respectively. Pharmacy administrative services paid by MCHC to the Organization total \$948,492 during 2015. The Organization donated \$381,444 and \$872,373, respectively, to MCHC for the years ended June 30, 2015 and 2014. At June 30, 2015, the Organization has a payable of \$589,001 which offsets the receivable of \$6,829,659 to a total of \$6,240,658 as presented in the Consolidated Statements of Financial Position. At June 30, 2014, the Organization has a payable of \$149,943 which offsets the receivable of \$3,640,255 to a total of \$3,490,312 as presented in the Consolidated Statements of Financial Position.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

6. Transactions with Affiliates (continued)

If MCHC's operations in fiscal year 2015 do not provide sufficient working capital to meet the Organization's obligations, DCSNO has the option to forgive the balance as assessed and approved by its Board. At this time, the Board does not anticipate forgiving the balance.

7. Concentrations of Risk

Health care counseling services and educational assistance are provided to clients who reside primarily in the New Orleans area. In addition, a substantial portion of net clinic service fees and reimbursements are provided for by federal agencies.

During the year ended June 30, 2015, the Organization received approximately 45% of its grant revenue from one source (45% private). During the period ended June 30, 2014, the Organization received approximately 45% of its grant revenue from three sources (45% private). The ability of the Organization to continue functioning at its current level of operations is dependent upon its ability to generate similar future support.

Funds on deposits in financial institutions exceeded FDIC insurance limits by \$686,510 at June 30, 2015.

8. Employee Benefit Plans

The Organization participates in the Ascension Health Retirement Plan (the Plan), which is a non-contributory defined benefit pension plan covering all eligible employees of Ascension Health entities. Plan benefits are based on each participant's years of service and compensation. Plan assets are invested in a master trust consisting of cash and cash equivalents, equities, fixed income funds and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Plan participants. The Organization's contributions to the plan totaled \$62,310 and \$56,524, respectively, for the years ended June 30, 2015 and 2014.

Net periodic pension benefit (cost) was \$49,586 and \$39,241 for the years ended June 30, 2015 and 2014, respectively. The service cost component of net periodic pension cost charged to the Organization is actuarially determined while other components are allocated based on the Organization's pro rata share of Ascension Health's overall projected benefit obligation.

The net prepaid pension cost (benefit) was (\$145,958) and \$14,191 at June 30, 2015 and June 30, 2014, respectively. These amounts are included as components of prepaid expenses and deferred pension cost, respectively, on the Consolidated Statements of Financial Position.

The assets of the Plan are available to pay the benefits of eligible employees of all participating entities. In the event entities participating in the Plan are unable to fulfill their financial obligations under the Plan, each of the other participating entities in the Plan becomes obligated to do so. As of June 30, 2015, the Plan had a net unfunded liability of approximately \$243,880. The Organization's allocated share of the Plan's net unfunded liability reflected in the accompanying Consolidated Statements of Financial Position was a funded asset of \$0. As a result of updating the funded status of the Plan, the Organization's allocated share of the Plan's net funded liability was reduced by \$225,842 during 2015.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

8. Employee Benefit Plans (continued)

As of June 30, 2014, the Plan had a net unfunded liability of approximately \$74,000. The Organization's allocated share of the Plan's net unfunded liability reflected in the accompanying Consolidated Statements of Financial Position was a funded asset of \$17,574. As a result of updating the funded status of the Plan, the Organization's allocated share of the Plan's net funded liability was reduced by \$63,946 during 2014.

The Organization maintains a defined contribution retirement plan, which allows participants to contribute by salary reduction pursuant to Section 403(b) of the Internal Revenue Code. Employee contributions are matched beginning January 1, 2013 by the Organization at a rate of 50% percent of the first 6% percent of earnings contributed by employees. The Organization's contributions are fully vested to the employee after three years of service for employees hired after January 1, 2013. Prior to January 1, 2013, employee contributions are matched by the Organization at a rate of one dollar for each three dollars of employee contributions up to 5% of an employee's salary. The Organization's contributions become fully vested to the employee after five years of service to the Organization.

Beginning January 1, 2013, an employer automatic contribution amount is based on years of benefit service from a contribution of no less than \$1,400, or from 2% to 3.5% of earnings based on years of benefit service from less than 5 to more than 15 years. Employer automatic contributions are vested after completing a vesting service requirement (usually three or five years).

The Organization's contributions to the plan totaled \$411,157 and \$327,898, respectively, for the years ended June 30, 2015 and 2014.

9. Fair Value Measurements

The Organization applies fair value accounting which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices that are readily available in active markets/exchanges for identical investments and derivatives. The types of investment and derivatives that are classified at this level generally include exchange-traded equities, futures, real estate investment trusts, pooled short-term investment funds, and options.

Level 2 – Pricing inputs other than quoted prices included within Level 1 that are observable for the investment or derivative, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments and derivatives in active markets/exchanges or prices quoted for identical or similar investments and derivatives in markets that are not active, and fair value is determined using inputs that are derived principally from or corroborated by observable model data by correlation or other means. The types of investments and derivatives that are classified at this level typically include fixed income securities, government issues, and certain derivatives.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

9. Fair Value Measurements (continued)

Level 3 – Significant pricing inputs that are unobservable for the investment or derivative and includes investments and derivatives for which there is little, if any, market activity for the investment or derivative. The inputs into determination of fair value require significant management judgment and estimation. The types of investments and derivatives that are classified at this level typically include private investments, limited partnerships, and certain fixed income securities and derivatives.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization maintains an investment in the Health System Depository (HSD) investment pool managed by Ascension Health for its member institutions. During 2012, the HSD pool was reorganized as the Alpha Fund and is considered to be a Level 2 investment.

As of June 30 the composition of total Alpha Fund and HSD investments is as follows:

	<u>2015</u>	<u>2014</u>
Cash, cash equivalents and short-term investments	9.2%	7.7%
U.S. government obligations	17.3%	20.6%
Asset backed securities	5.5%	6.1%
Corporate and foreign fixed income investments	10.7%	10.3%
Equity securities	20.3%	20.7%
Private equity and real estate funds	9.0%	7.0%
Hedge funds	19.1%	20.6%
Commodities funds and other investments	8.9%	7.0%
Total	<u>100.0%</u>	<u>100.0%</u>

As of June 30, 2015, 44%, 53% and 3% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while 0%, 100% and 0% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively. As of June 30, 2014, 39%, 56% and 5% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while 0%, 100% and 0% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively.

10. Contingencies

The Organization is, from time to time, involved in certain claims and legal actions arising in the normal course of business. The Organization is not aware of any pending lawsuits but the Organization believes that any potential claims resulting from litigation and not covered by insurance would not materially affect the consolidated financial statements.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

10. Contingencies (continued)

DCSNO participated in a number of state and federally-assisted grant programs in fiscal year 2015 and 2014. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. DCSNO believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the consolidated financial statements.

11. Social Accountability (Unaudited)

On an annual basis, the Organization reports its fulfillment of its religious, charitable, educational, scientific, and other philanthropic purposes. The following summarizes the Organization's social accountability report. As evidence of public support for its works and validation of its charitable character, the Organization received approximately \$3.6 million and \$4.9 million for the years ended June 30, 2015 and 2014, respectively, from public foundations, corporations, and private individuals and government contracts for services.

The Organization provides access to essential health and social services in a federally-designated Health Professions Shortage Area, as well as six other under-served neighborhoods of Orleans Parish. Total service provided was 81,750 and 85,358 encounters for the years ended June 30, 2015 and 2014, respectively.

To increase financial access to these services, the Organization offers its services on a sliding fee scale basis, adjusting for income and family size. During the years ended June 30, 2015 and 2014, respectively, these fee reductions amounted to \$188,219 and \$157,497. The Organization accepts Medicaid as payment for its clinical services, which resulted in fee additions (reductions) from the State of \$(1,707) and \$31,316 for the years ended June 30, 2015 and 2014, respectively.

12. Transaction with Children's Hospital Medical Practice Corporation

On September 9, 2014, the Organization entered into agreements with Children's Hospital, Children's Hospital Medical Practice Corporation ("CHMPC"), and Marillac Community Health Centers to assume operations of four pediatric clinics operated by CHMPC. Under the terms of the agreements, assets of the clinics were donated to the Organization totaling \$136,317. The Organization assumed responsibility for operations of the clinics, including items such as employees and lease agreements.

13. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, September 30, 2015, and determined that there were no subsequent events requiring disclosure.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
SCHEDULE OF COMPENSATION, BENEFITS, AND
OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED JUNE 30, 2015

Agency Head: Michael Griffin, President and Chief Executive Officer

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 49,576
Benefits-insurance	5,453

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

<u>ASSETS</u>				
2015				
	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<u>CURRENT ASSETS</u>				
Cash	\$ 974,056	\$ -	\$ -	\$ 974,056
Restricted cash	311,823	-	-	311,823
Investments	603,464	-	-	603,464
Patient receivables, net	236,267	-	-	236,267
Grants receivable	234,644	-	-	234,644
New market tax credit fees receivable	-	136,119	(136,119)	-
Due from affiliate	3,467,705	-	-	3,467,705
Prepaid expenses, inventory and other assets	48,958	-	-	48,958
Total current assets	<u>5,876,917</u>	<u>136,119</u>	<u>(136,119)</u>	<u>5,876,917</u>
<u>NON-CURRENT ASSETS</u>				
Due from affiliate	2,772,953	-	-	2,772,953
New market tax credit receivables	-	18,160,512	-	18,160,512
New market tax credit financing fees, net	447,559	-	-	447,559
Property, equipment and improvements, net	<u>22,372,864</u>	<u>-</u>	<u>-</u>	<u>22,372,864</u>
<u>TOTAL ASSETS</u>	<u>\$ 31,470,293</u>	<u>\$ 18,296,631</u>	<u>\$ (136,119)</u>	<u>\$ 49,630,805</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 727,254	\$ -	\$ -	\$ 727,254
Accrued pension, salaries and vacation pay	1,208,204	-	-	1,208,204
Self insurance liability	135,719	-	-	135,719
Other current liabilities	-	-	-	-
Interest payable, current portion	16,026	-	-	16,026
Note payable, current portion	-	-	-	-
Deferred revenue, current portion	78,024	-	-	78,024
New market tax credit fees payable	154,875	-	(136,119)	18,756
Total current liabilities	<u>2,320,102</u>	<u>-</u>	<u>(136,119)</u>	<u>2,183,983</u>
<u>NON-CURRENT LIABILITIES</u>				
Deferred revenue, long-term portion	663,204	-	-	663,204
New market tax credit loans payable	<u>20,500,000</u>	<u>-</u>	<u>-</u>	<u>20,500,000</u>
Total current liabilities	<u>21,163,204</u>	<u>-</u>	<u>-</u>	<u>21,163,204</u>
<u>TOTAL LIABILITIES</u>	<u>23,483,306</u>	<u>-</u>	<u>(136,119)</u>	<u>23,347,187</u>
<u>NET ASSETS</u>				
Unrestricted	7,829,428	18,296,631	-	26,126,059
Temporarily restricted	<u>157,559</u>	<u>-</u>	<u>-</u>	<u>157,559</u>
<u>TOTAL NET ASSETS</u>	<u>7,986,987</u>	<u>18,296,631</u>	<u>-</u>	<u>26,283,618</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 31,470,293</u>	<u>\$ 18,296,631</u>	<u>\$ (136,119)</u>	<u>\$ 49,630,805</u>

(1) This column represents the consolidated results for the DCSNO and DCSNOE entities.

(Continued)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

<u>ASSETS</u>				
2014				
	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<u>CURRENT ASSETS</u>				
Cash	\$ 2,504,941	\$ -	\$ -	\$ 2,504,941
Restricted cash	1,011,059	-	-	1,011,059
Investments	718,196	-	-	718,196
Patient receivables, net	203,612	-	-	203,612
Grants receivable	233,662	-	-	233,662
New market tax credit fees receivable	-	136,118	(136,118)	-
Due from affiliate	3,490,312	-	-	3,490,312
Prepaid expenses, inventory and other assets	79,491	-	-	79,491
Total current assets	<u>8,241,273</u>	<u>136,118</u>	<u>(136,118)</u>	<u>8,241,273</u>
<u>NON-CURRENT ASSETS</u>				
Due from affiliate	-	-	-	-
New market tax credit receivables	-	17,720,700	-	17,720,700
New market tax credit financing fees, net	607,035	-	-	607,035
Property, equipment and improvements, net	24,053,218	-	-	24,053,218
<u>TOTAL ASSETS</u>	<u>\$ 32,901,526</u>	<u>\$ 17,856,818</u>	<u>\$ (136,118)</u>	<u>\$ 50,622,226</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 760,506	\$ -	\$ -	\$ 760,506
Accrued pension, salaries and vacation pay	898,350	-	-	898,350
Self insurance liability	135,719	-	-	135,719
Other current liabilities	279,099	-	-	279,099
Interest payable, current portion	16,920	-	-	16,920
Note payable, current portion	48,055	-	-	48,055
Deferred revenue, current portion	78,024	-	-	78,024
New market tax credit fees payable	154,875	-	(136,118)	18,757
Total current liabilities	<u>2,371,548</u>	<u>-</u>	<u>(136,118)</u>	<u>2,235,430</u>
<u>NON-CURRENT LIABILITIES</u>				
Deferred revenue, long-term portion	741,228	-	-	741,228
New market tax credit loans payable	20,500,000	-	-	20,500,000
Total current liabilities	<u>21,241,228</u>	<u>-</u>	<u>-</u>	<u>21,241,228</u>
<u>TOTAL LIABILITIES</u>	<u>23,612,776</u>	<u>-</u>	<u>(136,118)</u>	<u>23,476,658</u>
<u>NET ASSETS</u>				
Unrestricted	8,950,748	17,856,818	-	26,807,566
Temporarily restricted	338,002	-	-	338,002
<u>TOTAL NET ASSETS</u>	<u>9,288,750</u>	<u>17,856,818</u>	<u>-</u>	<u>27,145,568</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 32,901,526</u>	<u>\$ 17,856,818</u>	<u>\$ (136,118)</u>	<u>\$ 50,622,226</u>

See accompanying independent auditors' report.

(Concluded)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			
	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<u>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</u>				
Clinical service fees and reimbursements				
net of charity and contractual discounts of				
\$858,156 and \$318,855, respectively	\$ 75,584	\$ -	\$ -	\$ 75,584
Less: provision for (doubtful accounts) recoveries	174,199	-	-	174,199
Net clinical service fees and reimbursements	249,783	-	-	249,783
Grants:				
Daughters of Charity Foundation	2,220,072	-	-	2,220,072
Other	1,183,374	-	-	1,183,374
Special event income, net of expenses of \$105,729 and \$81,449, respectively	129,569	-	-	129,569
Lease income from affiliate	15,392,916	-	-	15,392,916
Other income from affiliate	948,492	-	-	948,492
Net assets released from restrictions	554,434	-	-	554,434
<u>TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</u>	20,678,640	-	-	20,678,640
<u>EXPENSES</u>				
Program services	17,097,455	-	(196,975)	16,900,480
Management and general	4,654,001	-	-	4,654,001
<u>TOTAL EXPENSES</u>	21,751,456	-	(196,975)	21,554,481
<u>OPERATING INCOME (LOSS)</u>	(1,072,816)	-	196,975	(875,841)
<u>OTHER INCOME (EXPENSE)</u>				
Grant to affiliate	(381,444)	-	-	(381,444)
Investment income, net	86,378	636,788	(196,975)	526,191
Donated funds from DCSNOF to DCSNO	196,975	(196,975)	-	-
Pension related changes other than net periodic pension cost	49,586	-	-	49,586
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	(1,121,321)	439,813	-	(681,508)
<u>TEMPORARILY RESTRICTED NET ASSETS</u>				
Operating grants	295,968	-	-	295,968
Construction grants:				
Other	78,024	-	-	78,024
Net assets released from restrictions	(554,434)	-	-	(554,434)
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>	(180,442)	-	-	(180,442)
<u>CHANGE IN NET ASSETS</u>	(1,301,763)	439,813	-	(861,950)
<u>NET ASSETS</u>				
Beginning of year	9,288,750	17,856,818	-	27,145,568
End of year	<u>\$ 7,986,987</u>	<u>\$ 18,296,631</u>	<u>\$ -</u>	<u>\$ 26,283,618</u>

(1) This column represents the consolidated results for the DCSNO and DCSNOF entities.

(Continued)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2014			
	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Eliminating Entries</u>	<u>Consolidated Total</u>
<u>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</u>				
Clinical service fees and reimbursements				
net of charity and contractual discounts of				
\$858,156 and \$318,855, respectively	\$ 454,750	\$ -	\$ -	\$ 454,750
Less: provision for doubtful accounts	(76,175)	-	-	(76,175)
Net clinical service fees and reimbursements	378,575	-	-	378,575
Grants:				
Daughters of Charity Foundation	2,198,090	-	-	2,198,090
Other	1,115,428	-	-	1,115,428
Special event income, net of expenses of \$85,180 and \$97,851, respectively	152,314	-	-	152,314
Lease income from affiliate	11,995,416	-	-	11,995,416
Other income from affiliate	826,064	-	-	826,064
Net assets released from restrictions	655,470	-	-	655,470
<u>TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</u>	17,321,357	-	-	17,321,357
<u>EXPENSES</u>				
Program services	13,761,018	-	(207,185)	13,553,833
Management and general	4,027,464	-	-	4,027,464
<u>TOTAL EXPENSES</u>	17,788,482	-	(207,185)	17,581,297
<u>OPERATING INCOME (LOSS)</u>	(467,125)	-	207,185	(259,940)
<u>OTHER INCOME (EXPENSE)</u>				
Grant to affiliate	(872,373)	-	-	(872,373)
Investment income, net	196,267	710,827	(207,185)	699,909
Donated funds from DCSNOF to DCSNO	207,185	(207,185)	-	-
Pension related changes other than net periodic pension cost	39,241	-	-	39,241
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	(896,805)	503,642	-	(393,163)
<u>TEMPORARILY RESTRICTED NET ASSETS</u>				
Operating grants	430,208	-	-	430,208
Construction grants:				
Other	78,024	-	-	78,024
Net assets released from restrictions	(655,470)	-	-	(655,470)
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>	(147,238)	-	-	(147,238)
<u>CHANGE IN NET ASSETS</u>	(1,044,043)	503,642	-	(540,401)
<u>NET ASSETS</u>				
Beginning of year	10,332,793	17,353,176	-	27,685,969
End of year	\$ 9,288,750	\$ 17,856,818	\$ -	\$ 27,145,568

See accompanying independent auditors' report.

(Concluded)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Daughters of Charity Services of New Orleans (a nonprofit organization) (DCSNO) which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCSNO's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCSNO's internal control. Accordingly, we do not express an opinion on the effectiveness of DCSNO's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCSNO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Metairie, Louisiana
September 30, 2015

The Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

In planning and performing our audit of the consolidated financial statements of the Daughters of Charity Services of New Orleans (a nonprofit organization) (the Organization) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, during our prior year audit, we became aware of a matter that was an opportunity for strengthening internal controls and operating efficiency. Appendix A contains the status of the prior year comments.

We wish to thank the Chief Financial Officer and his department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board, management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Postlethwaite & Netterville

Metairie, Louisiana
September 30, 2015

STATUS OF PRIOR YEAR COMMENTS

Payroll

Management should consider establishing a preventative control with a formal documentation policy requiring that pay rate forms be signed off by the department supervisor, Human Resources Director, and Chief Executive Officer prior to pay rate changes or new employee information being entered into the payroll system.

Status

Resolved.